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Executive Registry

10-9275

6 SEP 1958

CONFIDENTIAL

MEMORANDUM FOR: Acting Director of Central Intelligence
Deputy Director (Support) /SIXKwDEC 1958

SUBJECT : GEHA, UBLIC Premium Returns

1. This memorandum contains a recommendation in paragraph 6 for policy approval.

2. The GEHA Board of Directors, at meetings of 22 July and 5 September 1958, passed the following resolutions dealing with the returned premiums from the United Benefit Life Insurance Company (UBLIC). The Director of Personnel and [] OGC, were present at each meeting. Certain opinions of the General Counsel expressed, concerning the Board actions on 22 July, were acted upon by the Board in the meeting of 5 September. The matter of disposition of returned premiums has been under lengthy discussion for three years and it is felt that the present resolutions adequately meet the policy interests of the Agency. GEHA's responsibilities to the employee policy holders and the various legal considerations involved.

3. The Superintendent of Corporations of the District Government has informed the General Counsel of the form by which the GEHA certificate of incorporation may be satisfactorily amended to authorize GEHA to conduct various types of insurance programs, including life insurance. This action is in process now and should be completed by the end of September. This will eliminate any legal question with the Superintendent of Corporations as to the authority of GEHA to conduct a life insurance program.

4. One of the resolutions calls for a percentage return of premiums to policy holders of record as of 31 July 1957. The question of GEHA's obligation to employee policy holders who left the program prior to 31 July 1957 has been lengthily discussed and will be the subject

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of further consideration. The delay in resolving this aspect, however, in the opinion of the Board and the General Counsel does not effect the propriety or legality of the present resolutions for the disposition of returned premiums.

5. The resolutions are as follows:

"Resolved that it is the policy of the GEHA Board that returned premiums from UBLIC policies be considered monies to be disposed of for the benefit of UBLIC policyholders only, subject to deduction for reserves, and administrative expenses. It is further resolved that it is the policy of the GEHA Board that no more than 75% of returned premiums in any insurance year shall be returned to the policy holders until such time as the reserve has reached a figure of \$100,000. In accordance with this policy, the following resolutions are proposed:

That the GEHA Board establish a reserve consisting of the amount of money remaining from returned premiums on UBLIC policies as of this date after deduction of monies paid for administrative costs and the payment of a 20% return of premiums to policy holders of record as of 31 July 1957.

That the GEHA Board deduct the amount of money equivalent to the 4th step of a GS-7 salary to be allocated from returned premiums from UBLIC policies, for administrative costs incurred in the servicing of UBLIC policies, such monies to be paid to the Comptroller of the Agency annually at such times when returned premiums are received from Omaha beginning with the policy year beginning 1 September 1956.

That the GEHA Board declare a 20% return of premiums to UBLIC policyholders of record as of 31 July 1957.

BE IT FURTHER RESOLVED that the GEHA Board by this action hereby rescinds such actions dealing with these subjects as were passed by the Board of Directors of GEHA at its meeting on 26 November 1957."

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Deputy Director of Central Intelligence

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14 OCT 1958

**MEMORANDUM FOR: Deputy Director of Central Intelligence
Deputy Director (Support)**

SUBJECT: GEHA - UBLIC Premium Returns

1. This memorandum is for information only.
2. On 22 July and 5 September 1958 the GEHA Board of Directors passed resolutions to distribute to UBLIC policy holders a portion of the premiums returned to GEHA under the contract with United Benefit Life Insurance Company. This Office expressed some reservations as to the legal implications of this action, and the GEHA request for policy approval by the Agency was, therefore, forwarded through this Office.
3. There is very little clear-cut law applicable to an action such as that taken by the Board. This is apparently because the normal procedure for groups who obtain a refund under these circumstances is to use the funds to reduce subsequent premiums paid by the members or to provide additional insurance. This is administratively convenient and avoids the cost of making refunds. It also appears to be acceptable legally. We do not find, however, that the action taken by the GEHA Board is illegal. In its execution we can foresee the possibility of a variety of legal problems, none of which appears to be insurmountable. Members of GEHA not holding UBLIC policies may claim their membership alone entitles them to share. We believe such a claim would not prevail as the Board's action in distinguishing between the class that contributed to the refund and those members who did not is equitable and within its authority. Awarding the refunds to those who are policy holders as

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of a specified retroactive date may be questioned both by policy holders who dropped their membership prior to that date or by current policy holders as against policy holders who have dropped their membership since that specified date. It would be preferable to make the refunds to those who are policy holders at the time the resolutions of the Board became effective.

4. Other legal involvements may occur in the case of qualified policy holders subsequently deceased or in the event that any erroneous payments are made. A question may be raised as to whether such a refund would in any way impair GEHA's entitlement to Federal or D. C. tax exemption. Since this is clearly not a dividend or other distribution of profits but a return to participating members, we believe in the end the entitlement to tax exemption should not be affected.

5. While we think there are distinct advantages in using the accumulated funds to reduce future premiums or provide additional insurance, the fact that the Board has already passed resolutions to make a refund may in effect have vested rights thereto in the qualifying members although doubt arises in the case where official notification of the Board's resolutions has not been given to the members. Unless we could say, therefore, that the action of the Board was clearly outside its authorities, any reversal at this time would tend to create its own legal involvements. We do not, therefore, present a legal objection to the Board's resolutions if they are approved from the policy viewpoint of the Agency.

LAWRENCE R. HOUSTON
General Counsel

ER

Director of Personnel

Orig - Deputy Director of Security

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